

1 MEETING OF THE GOVERNING BOARD
2 OF THE CHICAGO DEVELOPMENT FUND
3 NEW MARKETS TAX CREDITS PROGRAM
4
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7 City Hall - Room 1000
8 121 North LaSalle Street
9 Chicago, Illinois

10 Tuesday, May 19, 2015
11 2:42 p.m.
12

13 Andrew J. Mooney, Chairman
14 Lois Scott
15 Tom Tunney
16 Kurt A. Summers
17 Rafael M. León
18 Tony Q. Smith
19 James Simmons
20 Tracy L. Sanchez
21 Jeffrey D. Edwards
22
23
24

20 Reported by: Barbara A. Wichmann, RPR, RMR, RDR
21 CSR No. 084-001492
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23
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1 CHAIRMAN MOONEY: Okay. Thank you all for
2 coming. We now have a quorum.

3 We'll convene the meeting.

4 We have two main orders of business,
5 plus a few reports, and I'll try and get you out of
6 here in 15 minutes.

7 I need a motion to approve the
8 minutes of the January 14th meeting.

9 MS. SCOTT: Motion to approve.

10 MR. TUNNEY: Second.

11 CHAIRMAN MOONEY: All those in favor say aye.

12 (Chorus of ayes.)

13 CHAIRMAN MOONEY: Secondly, we have a couple
14 of election lists that we have to do for officers.

15 First is president, which would be
16 me. Is there a motion for that?

17 MS. SCOTT: Motion.

18 MR. TUNNEY: Second.

19 CHAIRMAN MOONEY: The motion has been made
20 and seconded.

21 All in favor say aye.

22 (Chorus of ayes.)

23 CHAIRMAN MOONEY: Okay. And the other
24 officer is Aarti Kotak for secretary.

1 MR. SMITH: And vice-president.

2 MS. SCOTT: Motion for Aarti Kotak for
3 vice-president and secretary-treasurer.

4 MR. TUNNEY: Second.

5 CHAIRMAN MOONEY: The motion has been made
6 and seconded.

7 All in favor say aye.

8 (Chorus of ayes.)

9 CHAIRMAN MOONEY: Thank you.

10 MS. SCOTT: Do you need a designation of
11 authorized rep?

12 MR. SMITH: Is that listed in here?

13 MS. SCOTT: It's listed in here, yes.

14 CHAIRMAN MOONEY: Yes.

15 MS. SCOTT: Okay. I'll make the motion to
16 designate Aarti Kotak as authorized rep.

17 MR. TUNNEY: Second.

18 CHAIRMAN MOONEY: Moved and seconded.

19 All in favor say aye.

20 (Chorus of ayes.)

21 CHAIRMAN MOONEY: Okay. Let's do a very
22 quick summary of where we are.

23 MR. SMITH: Sure.

24 CHAIRMAN MOONEY: And then we have one

1 interesting project that we would like your vote
2 on.

3 MR. SMITH: All right. So this is the annual
4 meeting of CDF, technically, so there's an annual
5 report in your packet.

6 If it meets your satisfaction, you
7 can do a verbal vote to approve and release, but
8 I'll hit just very quickly some of the highlights.

9 So in 2014 three transactions
10 closed, totaling \$24 million in allocation:
11 METROSquash in Woodlawn, the SCR Transportation
12 Company in Burnside, and Method Home Products in
13 Pullman.

14 Cumulatively, CDF has fully deployed
15 over a quarter of a billion dollars of allocation
16 to 23 projects that span 20 community areas and 15
17 wards in the city, very heavily concentrated on the
18 west and south sides in the lowest income, most-in-
19 need areas of the city, and that's led to the
20 creation or retention of over 3,200 full-time-
21 equivalent jobs.

22 Within that group there's about
23 2,200 full-time jobs. And the quality of those has
24 been quite strong, just under \$41,000 a year in

1 average annual wages, and 96 percent of those
2 provide full benefits.

3 And then the nonprofit community
4 facilities that CDF has financed will serve over
5 130,000 clients per year with health care, job
6 training, education, youth violence prevention,
7 recreation, and other services.

8 And that's just a very quick summary
9 of the annual report.

10 CHAIRMAN MOONEY: Any comments or questions?

11 MR. TUNNEY: Did the squash open?

12 MS. SCOTT: Yes.

13 MR. SMITH: Yes.

14 MS. SCOTT: I think they're fantastic
15 projects. This year's lists were phenomenal.

16 CHAIRMAN MOONEY: I haven't been down to
17 METROsquash.

18 MR. TUNNEY: I was down there for the -- I
19 was on the tour; I just haven't...

20 MS. SANCHEZ: And you haven't played there
21 yet.

22 MS. SCOTT: Yes, I haven't played there yet.

23 MR. SMITH: So collectively we've leveraged
24 about \$500 million of private investment, total.

1 MS. SANCHEZ: \$536 million.

2 MS. SCOTT: That's great.

3 CHAIRMAN MOONEY: Do we need to accept this
4 formally?

5 MR. SMITH: Yes.

6 CHAIRMAN MOONEY: Is there a motion to accept
7 the annual report?

8 MR. SUMMERS: I have just a real quick
9 question.

10 CHAIRMAN MOONEY: Yes.

11 MR. SUMMERS: I know we track at the time of
12 application the expected full-time-equivalent jobs
13 created or retained.

14 Was there a mechanism for tracking
15 throughout the period?

16 MR. SMITH: Sure. So each deal has a
17 community impact reporting agreement that sets
18 forth the initial projections and then obligates
19 the borrower to give an extensive annual report.

20 And so early in each calendar year
21 there's a survey that measures jobs, job quality,
22 wages, and other impacts. And so in comparing
23 those actuals to projections, it's very close --
24 CDF -- the actuals actually slightly exceed

1 projections in the aggregate across the portfolio.

2 MR. SUMMERS: So we show these numbers -- I
3 don't know if it's 2,257 ...

4 MR. SMITH: Those are actuals.

5 MR. SUMMERS: That's the actuals?

6 MR. SMITH: Yes.

7 MR. SUMMERS: And the 3,226 is not all
8 processed yet, completed, right? So --

9 MR. SMITH: Correct.

10 MR. EDWARDS: The 3,226 full-time-equivalent
11 jobs is what's expected at full operation of all
12 projects.

13 MR. SUMMERS: So the 2,257 is based on their
14 report at the beginning of this year through last
15 year --

16 MR. SMITH: Right.

17 MR. SUMMERS: -- for each of the projects?

18 MR. SMITH: The other clarification is the
19 2,257 is the full-time jobs. The 3,226 includes
20 full and part time. So if it's part time, it's
21 divided by 35 hours a week to get to a full-time
22 equivalent.

23 MR. SUMMERS: Got it.

24 MR. TUNNEY: Do you have a breakdown, created

1 versus retained?

2 MR. SMITH: Yes.

3 MR. SIMMONS: So the created number is 1,514.

4 And that's measured -- we measure created and
5 retained in full-time equivalents.

6 So the full-time equivalents created
7 and retained to date is 2,787, which is slightly
8 different from that because it's full time only.

9 And the retained is 1,273, and
10 created is 1,514, so that 54 percent of them were
11 created.

12 MR. TUNNEY: Got it.

13 MR. SIMMONS: And I'll just point out that
14 SCR, the deal that closed recently, included a high
15 number of retained jobs. So other projects
16 actually have a higher number of created positions,
17 around 64 percent.

18 MS. SCOTT: Method.

19 MR. SMITH: Yes, and that's all new.

20 CHAIRMAN MOONEY: Any questions?

21 Is there a motion to accept the
22 report?

23 MS. SCOTT: Motion.

24 CHAIRMAN MOONEY: Moved. Second?

1 MR. TUNNEY: Second.

2 CHAIRMAN MOONEY: Seconded.

3 All in favor say aye.

4 (Chorus of ayes.)

5 MR. SMITH: Great.

6 CHAIRMAN MOONEY: Thank you. Okay.

7 MR. SMITH: So just kind of a broader status
8 summary.

9 So I guess one note here, CDF closed
10 its first deal in 2008 for the renovation of the
11 old powerhouse at Homan Square. They turned it
12 into a high school.

13 That transaction is getting
14 completed within the seven-year New Markets
15 compliance period later this year, and scheduled to
16 unwind. So that's the first graduate of the
17 program.

18 Next year four more projects will
19 follow, so starting -- the fun begins of that.

20 MS. SCOTT: Is there more work on the fund
21 for the unwinds? Are there more actions that we
22 are going to need to take?

23 Or do they just -- you know, the
24 documents kind of just phase them out? Or is there

1 anything we need to do to close them out?

2 MR. SMITH: It's fairly simple.

3 The operating agreement for each CDF
4 subsidiary has an unwind mechanism where basically
5 CDF gets each subsidiary back in exchange for
6 assigning the loans to the New Markets investor,
7 who then assigns them to the project sponsor.

8 MS. SCOTT: Okay.

9 MR. SMITH: So as long as there's no --

10 MS. SCOTT: So that it's paper work, but
11 not --

12 MR. SMITH: Yes, there's no -- as long as
13 there's no substantial restructure as part of the
14 unwind, which we don't see any reason that there
15 should be, that might be the only thing that might
16 trigger a need for board action.

17 MR. SUMMERS: And when you said that CDF gets
18 the subsidiary back --

19 MR. SMITH: Yes.

20 MR. SUMMERS: -- does that mean the
21 contribution, or the -- the asset?

22 MR. SMITH: CDF uses an individual LLC for
23 each transaction. It's kind of the industry
24 convention and what the investors insist on.

1 And so the subsidiary for each deal
2 is a partnership between CDF and the tax credit
3 investor. So CDF gets back the subsidiary entity,
4 full ownership of the subsidiary. But the New
5 Markets loans are assigned up to the New Markets
6 investor.

7 MR. SUMMERS: Right. So getting back to the
8 subsidiary -- what's inside the subsidiary?

9 MR. SMITH: At that point, nothing.

10 MS. SCOTT: Nothing. It just disappears.

11 MR. SMITH: So it could be reused for other
12 transactions, but ...

13 So in terms of breaking down the
14 transactions by type, so a good mix across
15 different types of community facilities, from
16 education to health care to other, including job
17 training, youth violence prevention, recreation, et
18 cetera, and then a group of industrial.

19 And then one grocery-anchored
20 project closed today. The Englewood Square
21 transaction is the next one that's still in the
22 closing process; anticipated probably June of this
23 year.

24 And then this map shows the most

1 up-to-date illustration of where the transactions
2 have taken place; again, really concentrated on the
3 west side and the south side.

4 The small dots there are the ACE
5 solar transactions. That was eleven separate
6 properties getting retrofitted with solar energy
7 production. So they're scattered around the city,
8 but predominantly in the Logan Square and Humboldt
9 Park neighborhood, but that's a single project tied
10 to ACE.

11 And then in terms of openings, so
12 Method Home Products opened on April 28th. And
13 METROSquash had its grand opening on May 6th;
14 again, both are beautiful facilities, and they're
15 fully operational at this point.

16 In terms of CDF's track record of
17 deploying allocations, this graph shows the
18 different rounds of allocations CDF has received
19 and then the spend-down of that allocation. And
20 then the dark line is the aggregate allocation
21 deployed, so currently sitting at \$251 million.

22 And then an additional 19 and a half
23 million was pre-funded in January of this year.
24 Ten and a half is tied to the Englewood Square

1 transaction.

2 And so that represents additional
3 allocation that CDFI fund would see CDF to have
4 used, per the way they track it. It's just that it
5 hasn't been loaned down to the project level yet,
6 because you can't do that until full financial
7 closing takes place.

8 MR. SUMMERS: When is that expected? Or --

9 MR. SMITH: So likely --

10 MR. SUMMERS: I guess for each of these.

11 MR. SMITH: For both.

12 June of this year is the projection
13 for closing.

14 MR. SUMMERS: For closing.

15 MR. SMITH: Yeah. Englewood Square may lead
16 into July. The City has to complete its sitework
17 on the 63rd and Halsted site, which is currently
18 City-owned, and then will convey it to the
19 Englewood Square developer.

20 So the close-out and punch list of
21 that may leak into July. We hope not.

22 MR. SUMMERS: And -- sorry. You mentioned
23 for the SCR that was closed recently.

24 MR. SMITH: That closed in fall of last year.

1 MR. SUMMERS: Oh, that closed.

2 So they already had whatever their
3 opening was, and all that?

4 MR. SMITH: So it's a multi-phase project.

5 They've completed one phase, and
6 then they're working on getting ready to start the
7 smaller second phase, which is a renovation of
8 their headquarters building.

9 MR. SUMMERS: Got it.

10 MR. SMITH: And that is a quick status update
11 on projects. I'll go straight into status of
12 applications.

13 So CDF submitted its most recent
14 application in September of last year, asking for
15 just under a hundred million and more allocation.

16 No official word yet. So rumors are
17 somewhere between late May and mid-June; nothing
18 official. So just sitting tight, waiting for
19 Treasury.

20 I can sort of skip this last. It's
21 basically a recap of the competitive goals that
22 were identified last summer to try to be
23 competitive for more allocation. So we talked a
24 bit about the project types as well as the

1 deployment track record, basically consistent with
2 those goals.

3 CHAIRMAN MOONEY: So we have one project that
4 we would like you to consider today. And it's a
5 little different from just about all the others,
6 but an interesting one.

7 MR. SMITH: So it is a manufacturing deal,
8 but it's a brewing company, a brewing production.

9 So it's called Great Central Brewing
10 Company. It's an acquisition of existing vacant
11 sites on Walnut Street in the Kinzie Industrial
12 Corridor and the construction of a new 33,000-
13 square foot industrial building that would be a
14 craft brewing facility.

15 It's in the 27th ward.

16 So here's a map that drills down a
17 bit further on the project location.

18 Just for context, we've got the
19 Kinzie Industrial Corridor outlined as well as the
20 headquarters of the Industrial Council of Nearwest
21 Chicago, ICNC, which is one of the largest, most
22 active local industrial retention groups in the
23 city.

24 ICNC operates a large incubator

1 facility, including a lot of food and beverage
2 businesses a couple blocks away, and they've been a
3 huge advocate for this project. This is actually
4 how Great Central learned about New Markets and
5 came to CDF, was through the recommendation of ICNC.

6 The project site itself, as you can
7 see, is largely vacant. There is a small existing
8 one-story structure on it which would be retained
9 and used for parking and storage, and then the
10 balance of the site would be new construction of
11 that 33,000-square-foot building.

12 So a bit of background. The Great
13 Central Brewing is a new business. So they're
14 going to really focus on two product lines. One
15 would be contract brewing. So that's essentially
16 brewing for third-party craft beer labels, for the
17 beer to be sold under those third party labels'
18 brand.

19 And then brewing in house their own
20 label of craft beer that would be distributed and
21 sold around the City of Chicago and beyond.

22 So four initial partners. Really
23 the money partners are David Avram and Chris Tepas
24 collectively contributing about a million and a

1 half of cash equity.

2 David Avram's background is in
3 construction and development, and Chris Tepas'
4 background is in marketing and sales.

5 And then Mike Kraft -- great last
6 name -- is the craft -- the head brewer for the
7 facility. So 20-plus years in Chicago and other
8 parts of the country as a brewer and head brewer.
9 He's been at Lagunitas.

10 He's currently down in Dallas
11 helping a new brewery get launched, but will return
12 to Chicago as head brewer and also as a partner in
13 the facility.

14 So craft beer is a growing segment
15 of the overall beverage market, with about
16 18 percent growth in 2014.

17 Contract brewing is a way to lower
18 the barriers to entry for new beer labels which are
19 springing up all over the place. If you can't
20 afford to buy your own equipment or have your own
21 facility, you can buy capacity from a contract
22 brewer.

23 There is actually no sizable
24 facility in Chicago that offers that service. The

1 largest nearby facility is in Stevens Point,
2 Wisconsin, and it's fairly -- fairly obsolete.

3 Great Central is going to have about
4 30,000 barrels a year capacity with this initial
5 buildout, but could quadruple that in the same
6 space through building retrofits and additional
7 equipment.

8 They've already had three executed
9 letters of intent from local brewers that want to
10 contract with them. And then two additional LOI's
11 are pending, and they've got strong discussions
12 that are midstream with 18 additional prospects.

13 In terms of the jobs, so about 65
14 full-time permanent positions are projected when
15 the facility is at full stabilization. The initial
16 buildout within two years would get them to about
17 18 to 24 full-time positions, and construction
18 would be a hundred temporary jobs.

19 The quality of these jobs is solid.

20 So one of the New Markets impact
21 categories of most importance is how good are the
22 jobs and how accessible are the jobs. And these
23 jobs have a good balance of that in that they will
24 all be full time and have comprehensive benefits,

1 including health insurance.

2 And they'll start at \$15 an hour and
3 be accessible to folks with less than even a high
4 school diploma, and certainly less than a college
5 education.

6 There are technical certifications.

7 Siebel Brewing Institute over at
8 Kendall College is actually a mirror facility that
9 offered these kind of stackable credentials to move
10 up, and Great Central plans to subsidize its
11 employees' attendance at Siebel as they move up
12 into the managerial ranks.

13 This has also a nice kind of network
14 effect in terms of helping assist other startups
15 that want to launch in Chicago by giving them
16 access to contract brewing facilities so they don't
17 have to make a huge capital investment to get going
18 and supporting the expansion of existing local
19 breweries.

20 So Berghoff being one example that
21 has signed an LOI with Great Central so they can
22 expand their capacity and their production.

23 And then also capturing contract
24 brewing demand from other craft beer labels around

1 the country. So they're talking to folks in
2 Florida, Colorado, Oregon, Utah that want to have a
3 Midwest production satellite and essentially serve
4 the Midwest market without having to ship product
5 that they manufacture in their home state.

6 It ties in nicely to the priorities
7 in this -- in the Kinzie corridor and with ICNC.
8 So it's a planned manufacturing district and fully
9 consistent with the PMD zoning. This is a
10 manufacturing facility.

11 And then also ICNC and the Fulton
12 Market incubation district plan are very much
13 targeted on food and beverage, and growing that
14 cluster. It's been a historical strength for
15 Chicago, and that part of Chicago, and it's also a
16 great source of very accessible, but still quality,
17 manufacturing jobs.

18 There are also some good
19 sustainability features in the project. So there's
20 about \$150,000 worth of environmental cleanup of a
21 brownfield site and then energy efficiency
22 components, both in the building and the equipment,
23 and they're going to exceed stormwater retention
24 requirements by about 20 percent.

1 Jumping to the sources and uses, so
2 it's sort of a two-part transaction. There's a
3 financing that CDF will be part of that's tied to
4 the building and the landlord entity; and then a
5 separate financing that's an SBA loan facility for
6 the tenants, which is Great Central Brewing
7 Company.

8 So on the landlord side, it's about
9 a \$6 million project to construct the building, and
10 that includes the site acquisition and site prep.
11 So that would be funded through New Markets equity
12 from JP Morgan Chase; allocation for -- New Markets
13 allocation of up to \$6 million, but probably about
14 5.5 from CDF. So that's about \$1.35 million of net
15 subsidy that that would generate.

16 Mezzanine debt would be the primary
17 financing source. T2 Capital Management is a
18 managed lender based in the west suburbs, in
19 Wheaton. So they would be providing about three
20 and a half million of mezz capital; and then about
21 \$750,000 of sponsor equity.

22 And then separately from that, at
23 the same time or prior, an SBA 504 loan structure
24 would close with Midland States Bank as senior

1 lender, Somercor 504 as the junior SBA lender, and
2 then another \$750,000 in sponsor equity.

3 So that piece would be financing the
4 equipment and working capital.

5 MS. SCOTT: So let me make sure I understand.

6 The building part and the other --
7 and the operating piece are two separate
8 entities --

9 MR. SMITH: Right.

10 MS. SCOTT: -- each with \$750,000 sponsor
11 equity.

12 MR. SMITH: Right.

13 MS. SCOTT: So a million five for the total
14 project --

15 MR. SMITH: That's correct.

16 MS. SCOTT: -- against the total project cost
17 of \$6 million.

18 MR. SMITH: Yes. And so total investment of
19 ten; our deal is six, yeah.

20 MS. SCOTT: Oh, total investment is ten,
21 right.

22 MR. SMITH: Yes.

23 MR. SUMMERS: And it's the land and the opco
24 are backed by the same sponsors?

1 MR. SMITH: Yes.

2 MR. SUMMERS: The same two gentlemen?

3 MR. SMITH: Yes. So David Avram is the
4 majority partner in the operating business and in
5 the property ownership entity, yes.

6 And that is the transaction in a
7 nutshell.

8 MS. SCOTT: Is it all land? Do they have to
9 do any remediation even? Or no?

10 MR. SMITH: It's available land.

11 About \$150,000 of cleanup, and they
12 are going to do it through the State of Illinois'
13 NFR process.

14 MR. SUMMERS: Just as a quick refresher, the
15 allocation versus net subsidy process --

16 MR. SMITH: Yes.

17 MR. SUMMERS: Just talk a little about that.

18 MR. SMITH: In fact, we put an appendix on
19 the presentation just in case that question came up.

20 So you have the New Markets program,
21 and this is continually a point of confusion. So
22 it's a 39-percent tax credit on each dollar of
23 allocation, and 39 cents is actually spread over
24 the seven-year compliance period.

1 So what an investor pays up front is
2 about 30 to 33 cents for that 39 cents of tax
3 credit benefit.

4 And then, in turn, the costs of
5 actually closing the transaction and then the
6 reserves that are set up to cover CDF's audit and
7 tax return and other ongoing administrative costs
8 net the subsidy down to about 25 cents.

9 So basically the best you can do is
10 that one dollar of allocation gets you about a
11 quarter of subsidy.

12 MR. SUMMERS: Got it. So that's the five and
13 a half, with roughly 1.35 --

14 MR. SMITH: Yes.

15 MR. SUMMERS: -- of that subsidy. And it's
16 the value -- the net value of the tax credit to the
17 project.

18 MR. SMITH: And then the investor's discount,
19 yes. Exactly.

20 MR. SUMMERS: And then -- so that on the
21 other side, the 1.35 is roughly the 1.69 in the
22 sources here?

23 MS. SANCHEZ: Yes.

24 MR. SMITH: Minus the transaction costs and

1 reserves.

2 MR. SUMMERS: Okay. Got it.

3 MR. TUNNEY: So since this is somewhat my
4 field, obviously craft beer is a new phenomenon,
5 which may have a life of years. But it's already
6 being done with private sector dollars, not
7 necessarily the contract branding.

8 I think speaking of Lagunitas --
9 right? -- I mean, they're doing this with any
10 subsidy whatsoever? Any creativity?

11 MR. SMITH: I don't think Lagunitas has got
12 subsidies to come in. They are based in Northern
13 California, as you probably know, and were well
14 established at that point, and so were ready to
15 make a sizable investment in another production
16 facility in the Midwest.

17 So just for context, Great Central
18 is going to be brewing about 30,000 barrels a year;
19 Lagunitas is at a million barrels a year.

20 CHAIRMAN MOONEY: This is a startup company.

21 And would you mind talking a little
22 about the role that the tax credits play in this
23 structure?

24 MR. SMITH: Sure. So great Central is going

1 to have this kind of contract brewing model, which
2 is very different from Lagunitas.

3 MR. TUNNEY: Could you go slower; slow it
4 down.

5 MR. SMITH: Yes, sorry.

6 So Great Central is going to be a
7 contract brewer. So they are going to serve third-
8 party clients who want to essentially get the
9 product made by Great Central and label it as --
10 under their own brand.

11 Lagunitas brews for their own brand,
12 essentially.

13 So Great Central is working with a
14 group of kind of small third-party craft labels who
15 are kind of betting on this provider to handle
16 their production for them.

17 And so they can sign LOI's; they can
18 say, look, we want to work with you. But they
19 can't make a binding commitment to produce with
20 Great Central at this stage because of the risk; if
21 Great Central doesn't get built on time or, you
22 know, mismanages their buildout, is that their
23 clients would lose any production capacity
24 whatsoever.

1 So it's kind of delicate to try to
2 finance one of these facilities, and that's why
3 there is no bank debt in this transaction; it's all
4 mezzanine capital.

5 So T2 Capital Management, the mezz
6 lender, is charging about 10 percent interest on
7 their mezz loan, and then there's a significant
8 amount of private equity in the deal.

9 So it's basically getting over this
10 kind of high cost to start a new facility and deal
11 with the high cost of building new industrial space
12 in Chicago.

13 MR. TUNNEY: So Berghoff beer, where is it
14 being brewed at this point?

15 MR. SMITH: Stevens Point, Wisconsin.

16 MR. TUNNEY: Which you said was somewhat
17 antiquated.

18 MR. SMITH: Yes. And so Berghoff initially
19 planned with Great Central to launch a couple of
20 additional product lines that they haven't had the
21 ability to launch historically, and then
22 ultimately, if things are working out well with
23 Great Central, might pull production down from
24 Stevens Point down to Chicago solely with Great

1 Central.

2 MS. SCOTT: So -- I actually used to own a
3 brewery.

4 MR. SMITH: Wow. Okay.

5 MS. SCOTT: And it was a brewer; it wasn't a
6 pub.

7 The big trick is the cost of
8 bottling. Now, are they are going to do bottling?
9 Or are they just going to --

10 MR. SMITH: They are going to do that.

11 MS. SCOTT: They're going to do bottling.

12 MR. SMITH: Yes.

13 MS. SCOTT: So that's going to be an
14 expensive piece.

15 And the other part of it is if you
16 don't bottle, then you got to get -- you got to
17 fight in the bars for tap space and getting the
18 names out.

19 It sounds like they are going to
20 contract with somebody else to do that.

21 I like the business model very much.

22 There is a new brewery going in on
23 the southeast suburbs with a similar model for
24 contract brewing, and I'm forgetting what community

1 it's in. It's on the way down to Indiana, but it's
2 just outside Chicago.

3 And that is going in, and they are
4 going to open I think in the fall time frame.

5 MR. SIMMONS: Is that Argus, by chance?

6 MS. SCOTT: Pardon me?

7 MR. SIMMONS: Argus?

8 MS. SCOTT: I don't know what they're doing
9 it under. It's associated with the brewery that's
10 on South Wabash.

11 CHAIRMAN MOONEY: If it's the one I'm
12 thinking of, they're actually going to open their
13 brewery in the 8th Ward.

14 MR. SMITH: Is it Vice City?

15 MS. SCOTT: No.

16 CHAIRMAN MOONEY: That doesn't sound right.

17 But yes, he's down on South
18 Michigan; could be South Wabash.

19 MS. SCOTT: Could be the same one. I thought
20 they were going to be outside the city.

21 MR. SIMMONS: Vice City is on South Michigan.

22 MS. SCOTT: It's not Vice City.

23 CHAIRMAN MOONEY: They're buying a property
24 on 23rd. Maybe it's that group.

1 MS. SCOTT: I think it's really interesting.

2 My question is more about the
3 location in that neighborhood. Is that where you
4 would want that kind of manufacturing?

5 CHAIRMAN MOONEY: Absolutely, yeah.

6 It fits in exactly where you want
7 it. It's in the PMD, which of course is dedicated
8 to manufacturing. And Kinzie and Fulton are
9 oriented toward the food industry.

10 MS. SCOTT: And they're not going to try and
11 do any kind of pub associated with it? It says
12 here that later on they're going to have a tasting
13 room.

14 CHAIRMAN MOONEY: Apparently a tasting room.

15 MR. SMITH: Yes. A small tap room.

16 MS. SCOTT: A small tap room.

17 MR. SMITH: Yes. The PMD limits how much --

18 MS. SCOTT: That's what I thought, yeah.

19 Okay.

20 MR. SUMMERS: How do we think about these
21 three executed letters? Does that get them to the
22 30,000 barrels?

23 MR. SMITH: So three executed LOI's gets them
24 to about half capacity. So that's getting close to

1 breakeven.

2 MR. SUMMERS: Half of the initial capacity?

3 MR. SMITH: Yes. Exactly.

4 So they'll likely execute additional
5 LOIs prior to transaction closing.

6 And basically those commitments
7 would go hard probably at the time that they have a
8 firm delivery date for the building and they can
9 promise these brewers they'll get a chance to get
10 in there and do quality control and testing.

11 MR. SUMMERS: Do the other capital providers
12 have any of those capacity commitments as
13 contingencies upon closing?

14 MR. SMITH: No. The SBA loan structure is
15 based on some underwriting of the projected
16 financials of the business, and then also personal
17 guaranties from a couple of the partners.

18 MR. SUMMERS: So basically it's a group of
19 rich guys who, you know, we think know this
20 business, and whether they have hard commitments or
21 not, they're going to persevere.

22 Literally -- you know, I mean, it's
23 an amazing start-up. And I don't need to have a
24 hard customer guaranty, and I can get bank

1 financing, and, you know, the equivalent of a
2 million and a half dollar subsidy.

3 MR. SMITH: The SBA financing is secured by
4 the equipment that they are purchasing.

5 MS. SCOTT: And personal guaranties.

6 MR. SMITH: And personal guaranties.

7 MS. SCOTT: It's their whole personal net
8 worth.

9 MR. SMITH: Right. And it's a fairly limited
10 SBA commitment.

11 MR. SUMMERS: And the personal guaranty is
12 worth something.

13 MS. SCOTT: Right. Yes.

14 MR. TUNNEY: Does Mr. Kraft have any real
15 money in this? Or is it just his expertise?

16 MR. SMITH: He's a 5-percent partner, and
17 he's kind of the sweat equity partner.

18 MR. TUNNEY: Sweat equity.

19 MR. SMITH: He's going to be the brewing
20 capacity.

21 MR. TUNNEY: So, I mean, how do you keep the
22 talent if -- how do you keep the talent?

23 MS. SANCHEZ: Because he has a percentage of
24 the ownership and he has recipes that will be going

1 out under this label that are his recipes.

2 So that's I think what will keep him
3 here. It's his beer, basically, that's going to be
4 under the Great Central Brewing Company label.

5 MR. SUMMERS: Who are the principals behind
6 T2?

7 MR. SMITH: I don't know off the top of my
8 head here.

9 MR. SUMMERS: We can get that?

10 MR. SMITH: Yes.

11 CHAIRMAN MOONEY: Yes, we can get that.

12 MR. SUMMERS: I'm just trying to figure out
13 if they are a financing vehicle we have seen
14 before, or are they -- you know, is there any kind
15 of relation to the principals in any way?

16 MR. SMITH: I think they have financed real
17 estate projects that Dave Avram has built before,
18 so there is a historical relationship there.

19 But they've been kind of more
20 traditionally a real estate investor, so they're
21 taking a bit of a departure here.

22 MS. SCOTT: Well, part of it is a real estate
23 play, right? It's in a growing neighborhood. And
24 if the brewery doesn't work, something else can go

1 into that building.

2 CHAIRMAN MOONEY: It would be hard, because
3 it's in the PMD.

4 MS. SCOTT: Right. It has to be
5 manufacturing.

6 CHAIRMAN MOONEY: Yes.

7 Any other comments? These are all
8 great questions.

9 If not, if we're ready to move
10 ahead, is there a motion to approve this project?

11 MS. SCOTT: Motion.

12 MR. TUNNEY: Second.

13 CHAIRMAN MOONEY: All in favor, say aye.

14 (Chorus of ayes.)

15 CHAIRMAN MOONEY: Thank you.

16 I just want to recognize that this
17 will be Lois' last meeting.

18 MS. SCOTT: Thank you.

19 CHAIRMAN MOONEY: We have very much
20 appreciated your involvement.

21 MS. SCOTT: My pleasure.

22 CHAIRMAN MOONEY: I know you took a real
23 personal interest in this, and we appreciate it.

24 MS. SCOTT: I think it's one of the most

1 remarkable things we do. Great projects get done,
2 and I love to go on the tours.

3 It's great projects. You have done
4 a fabulous job, Mr. Mooney.

5 CHAIRMAN MOONEY: Thank you. We'll miss you.

6 And I should have -- for the record,
7 I just want to say -- I should have done this at
8 the very beginning.

9 I want to recognize that Lois Scott
10 is here, Tom Tunney is here, Kurt Summers, and
11 myself, Andrew Mooney, for the record.

12 Also I neglected to recognize Rafael
13 León, who is chairman of the Advisory Committee.

14 And I should have turned to him --
15 and I always forget this, too, before, if there are
16 any comments this morning from the Advisory
17 Committee.

18 MR. LEÓN: No. No. We recommended approval.

19 CHAIRMAN MOONEY: Thank you.

20 Motion to adjourn?

21 MS. SCOTT: Motion.

22 MR. SUMMERS: May I make one quick request?

23 I'm not sure when the next meeting
24 is scheduled. But can we just be notified when we

1 have a sense of closing on the things that we
2 approved in January?

3 MR. SMITH: Sure.

4 Yes, we'll send that out, along with
5 some info on the T2 partners. We'll basically give
6 like an update.

7 MS. SCOTT: It will be on the website.

8 CHAIRMAN MOONEY: Okay. It's been moved to
9 adjourn, and thank you. We are adjourned.

10 MS. SCOTT: Thank you.

11 (The proceedings adjourned at
12 3:12 p.m.)

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REPORTER'S CERTIFICATE

I, Barbara A. Wichmann, do hereby certify
that I reported in shorthand the proceedings of
said hearing as appears from my stenographic notes
so taken and transcribed under my direction.

IN WITNESS WHEREOF, I have hereunto set my
hand and affixed my seal of office at Chicago,
Illinois, this 30th day of May 2015.



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